



## Specialty Wholesalers Clean Up

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Wholesale drug companies have been around since the late 1800's, some companies still in existence having their origins placed as early as post-Civil War<sup>1</sup>. Their primary function was to be a 'general store' for pharmacies so that they were able to buy small quantities of medications and were readily available for their stores.

Until the early 1970's, they weren't that widely used, and many of the early businesses either folded or were re-organized or absorbed by newer, larger companies. Most pharmacies were still ordering direct from the manufacturer; also the markup from wholesalers made them unattractive financially. But with the advent of the Prime Vendor Program, and Group Purchasing Organizations (GPO), drug wholesalers became more of a force in Pharmacy Purchasing. With their move to shift administrative expenses from the customer to the vendor and the advent of contract pricing, drug wholesalers finally came into popularity.

As pharmacies grew and demand for inventory control increased, so did the wholesalers. "Mom-and-Pop" pharmacies, as well as large chain stores and hospitals grew to depend on the drug wholesalers as an extension of their own pharmacy storerooms, better controlling their inventories by purchasing as much or, more important, as little as they needed.

Today, the wholesale drug business is a multi-billion-dollar industry, acting as a middleman between drug manufacturers and pharmacy. And like every other industry, there are the mega-corporations and smaller, privately owned businesses. And since anyone with a few hundred bucks and a clean criminal record could start a drug wholesale business (when the 1987 Prescription Drug Marketing Act was being drafted, a little over 30 states licensed their wholesalers<sup>2</sup>), it was a wide-open enterprise.

Naturally, with that loose a regulatory system, the drug wholesale industry attracted all sorts of entrepreneurs, both honest and well-meaning as well as unscrupulous and dishonest.

The small business drug wholesaler companies, now better termed as Specialty Wholesalers or Specialty Distributors, have had to suffer the humiliation and the indignities of scorn and disrespect of the larger drug wholesalers and by drug manufacturers alike because of the transgressions of the businessmen who took the specialty drug wholesaler industry as their own personal cash cow, dragging the honest businessmen who were trying to provide an honest and needed service with them. But like any business where trust is an earned commodity, the more unscrupulous ones fell by the wayside, victims of their own dishonesty and negative word-of-mouth by other Buyers.

One of the main reasons Secondary Distributors started to earn a foothold with Buyers was that these were smaller, more agile companies, who could acquire items from sources not easily available to Buyers, such as major wholesalers that were not the Buyer's primary or secondary provider, out-of-area wholesalers, or even from the manufacturer itself. Buyers who needed these hard-to-find items could contact one of the Secondaries and have them hunt down available stock from other sources.

Certain Specialty Wholesalers would offer such items at reasonable markups, but other more unscrupulous companies would mark up the prices exorbitantly, earning the ire of buyers who often put all Specialty Wholesalers into the same negative category. Purchasing groups also saw such businesses as eroding contract compliance, thus adding their own negatives to the general term of Secondary Wholesalers.

As is true in any industry, the "bad apple" types can erode the value of an entire segment of an industry. Something had to be done to correct such problems.

Today's Specialty Wholesaler is a tighter, cleaner, more honest operation. Mainly because of the need to clean up their act or perish like their counterparts, but also because of newer safeguards put into place both by the industry, the government, and their own profession.

After the counterfeit drug scares of the Eighties, the biggest question on the minds of prospective customers was where the drugs that Hospitals were purchasing coming from. From that fear was created an industry. Once consigned to show dogs, race horses and English royalty, Pedigree became the buzzword of the Nineties for all drug distributors. Companies were formed whose sole purpose was to track and make available to pharmacies the sojourn of a drug, from raw material, to manufacturer, to distributor, to pharmacy.

To have the pedigree of a drug was the insurance policy a Buyer needed to purchase a product with the confidence of knowing that the product they were purchasing was genuine, and exactly how many times it has changed hands (companies), before it got to the Buyer. Naturally, a drug with the shortest trip to the pharmacy was the most desired, but tracing the drug's pedigree through a list of reputable businesses was now an acceptable alternative.

Going one step further, the National Association of Pharmaceutical Sales Representatives®, established in 2003, was initiated to educate, train, create standards and provide current information for the many professional Pharmaceutical Sales Representatives as well as for individuals who want to gain entry into the industry. Headed by a board of six of the top Pharmaceutical Drug Manufacturers, they established their own certification, and its' members are required to maintain it, through yearly CE education and recertification. It is open to all Pharmaceutical Sales Reps, from all experience levels. More information is available on their website, [www.napsronline.org](http://www.napsronline.org).

Not satisfied with certifying the integrity of the drug, the National Association of Boards of Pharmacy (NABP) instituted the Verified-Accredited Wholesale Distributors® or *VAWD*® in 2004. With this accreditation, the NABP certified to the public that the company with *VAWD* accreditation complied with both national and local laws, among other factors, assuring another step of public safety. As of May 30, 2008, 270 companies have been accredited through *VAWD*. A list of these companies, which not only includes the three major drug wholesalers, but many of the companies that are displaying at this year's Conference, is available on the NABP website, at [www.nabp.net/index.html?target=/vawd/intro.asp&](http://www.nabp.net/index.html?target=/vawd/intro.asp&).

In addition, the National Coalition of Pharmaceutical Distributors was formed as a self-regulating organization comprised of small business drug wholesalers with the purpose of protecting the specialty wholesaler and working through the government and the media to dispel the negative publicity caused by the unethical wholesalers of the Eighties. This is one of the newer organizations, formed in 2006 with a core group of twelve companies; their plan is to work to eliminate the liability risks in order to gain negotiating power on prices and supplies just as major wholesalers do. Their informational website and criteria for becoming a member is at [www.ncpdusa.org](http://www.ncpdusa.org).

But despite everything the Specialties are doing to validate their legitimacy, there will always be that group that will forever remember those companies that are now out of business because of their unethical practices, but will be forever hard-wired in their minds. Nothing may ever change that mindset. Even in this day and age, some pharmacists still have misgivings about dispensing generic drugs<sup>3</sup>. It will be impossible to change everyone's minds, and in truth we shouldn't even try. Though in truth the Specialty Wholesalers purchase drugs and supplies from the same sources as their mega counterparts and most possess the legal documentation to prove it so, there is nothing that will change their minds. We can only present the facts and hope they speak for themselves.

There is a new generation of Pharmacy Buyers out there who do not have the bad taste of the Secondaries of the Eighties, and should be given the opportunity to decide for themselves. With more than a dozen new organizations and companies supporting and regulating the Specialties as well as new federal mandates on pedigree and regulation of all wholesalers in general, the Specialty Wholesaler Industry is sending a clear message to the public and to Pharmacy Buyers in particular that they are making bold overtures to prove they are not the Secondary Wholesalers of the previous Millennium and are dedicated to provide an honest, reputable service.

Is the Specialty Wholesaler system, a squeaky-clean Disneyland of honest, free enterprise? No. There will always be a faction in any business that will exploit a customer's weakness or just exercise poor judgment when conducting business. And this is not unique to the Specialties. Current events have chronicled questionable practices among the largest of drug wholesalers and criminal investigations against major drug manufacturers are in the news on a regular basis.

So it is not a perfect system; no major business really is. In time, truth and common sense will eventually win out. As the surviving Specialties have learned, trust is a commodity, once lost is a stigma that may be with you a long, long time. With any business, their constant mantra and the single deciding factor for the survival and success of their business will be the level of service they provide and the trust they instill in their customers.

<sup>1</sup>Edward Kremers, Glenn Sonnedeker, George Urdang, *Kremers and Urdang's History of Pharmacy*, ISBN:0931292174, 1986, p323

<sup>2</sup>Written testimony by W.J. "Billy" Tauzin, Chairman, Committee on Energy and Commerce: *A System Overwhelmed: The Avalanche of Imported, Counterfeit, and Unapproved Drugs into the U.S.* to the Subcommittee on Oversight and Investigations

<sup>3</sup> Martin Sipkoff, *Exclusive survey of RPh's reveals their hopes, fears about generics*, Drug Topics, April 14, 2008